

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

February 20, 2003

The Capital Projects and Bond Oversight Committee met on Thursday, February 20, 2003, at 12:00 PM, in Room 113 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chair; Representatives Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Bill Hintze, Governor's Office for Policy and Management; Armond Russ and Jack Morris, Finance and Administration Cabinet; Dr. Bill Brundage, Cabinet for Economic Development, Office of the New Economy; Dick Schmidt, Energy and Environmental Consortium; Sandy Williams, Kentucky Infrastructure Authority; and Tom Howard and George Burgess, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, Bart Hardin, and Shawn Bowen.

Representative Wayne made a motion to approve the minutes of the January 21, 2003 meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon called on Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. Ms. Collins said the only item of correspondence was the Kentucky Lottery Corporation's monthly report for December 2002. She said there were two information items in committee members' folders: a summary of proposed legislation relating to the committee's jurisdiction and the executive budget, and a staff update on various capital projects. She noted that committee members have sponsored companion bills relating to alternative project delivery methods: Senate Bill 106, sponsored by Senator Buford, and House Bill 296, sponsored by Representatives Jim Wayne and Paul Marcotte. She said House Bill 296 had passed the House, and was now in the Senate.

Chairman Haydon asked Bill Hintze, Governor's Office for Policy and Management, and Armond Russ, Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze first reported an unbudgeted project by the Governor's Office for Technology (GOT) to develop a digital base map of the Commonwealth's natural and man-made landscape. He said this project was included in the Executive Budget Bill, 2002 Special Session, but was not included in the Governor's Spending Plan for Fiscal Year 2003 since it was a current year (FY 2002) project. The project scope is \$1,818,900 (\$1,391,900 from a NASA grant, \$171,000 from GOT restricted funds and \$256,000 from in-kind contributions from other agencies).

Mr. Hintze next discussed an allocation of \$60,500 from the Capital Construction and Equipment Purchase Contingency Account for the Jefferson Davis Monument Repair project initially authorized by the 1998 General Assembly. He said the funds will be used to award the low bid for Phase III of this project. Phase III includes various mandated life safety initiatives and other improvements.

Representative Wayne made a motion to approve the NASA grant and the scope increase for the Jefferson Davis Monument Repair project. The motion was seconded by Senator Leeper and passed by voice vote. The revised project scope for the Jefferson Davis project is \$2,895,500.

Mr. Hintze then discussed an allocation of \$60,000 from the Capital Construction and Equipment Purchase Contingency Account for the Big Bone Lick State Park Land Acquisition and Park Improvements project. This project was authorized at a scope of \$1,000,000 by the 2000 General Assembly. The contingency funds will be used to award the low bid for the construction of a new visitors center. Mr. Hintze said the project has also received a local contribution of \$127,000 from the Boone County Fiscal Court.

Representative Wayne noted that as part of this project, property was acquired, which was formerly the site of the Hillside Mobile Home Park. He asked if there was any state assistance for the displaced residents. Bob Bender, Department of Parks, said no funds were available for relocating residents of the mobile home park. He said he did not know if the Boone County Fiscal Court provided any money towards that effort, but at the time of this acquisition, most of the residents had already relocated. He added that the trailer court was in very poor condition by the time the state acquired it.

Representative Marcotte made a motion to approve the scope increase. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$1,187,000.

The final project Mr. Hintze discussed was a New Economy initiative entitled the Energy and Environmental Consortium project. He said this project was developed by the Western Regional Center for Emerging Technology located at Murray State University

(MuSU). The Consortium includes MuSU, the University of Kentucky, the Kentucky Community and Technical College System, and various federal agencies.

Mr. Hintze said this project previously had a scope of \$400,000. The project scope is being increased by \$1,000,000 from the High Tech Investment/Construction Pool, and as required, it is being reported to the committee.

Dr. Bill Brundage, Commissioner, Office for the New Economy, said they have identified in their strategic plan five technology areas where the state can grow and build new economy industry clusters. One of those clusters is environmental and energy technologies. He said the Energy and Environmental Consortium project is moving forward rapidly; they have received \$3.4 million from the federal government. He introduced Mr. Dick Schmidt, the head of the Consortium, to discuss methane coal, a potential new industry for the state.

Mr. Schmidt said the neighboring states of Virginia, West Virginia, and Illinois, are developing their coal bed methane resources. He said Kentucky plans to conduct a pilot test to determine if oil field drilling technology that changes the direction of the hole can be adapted to coal bed methane recovery projects in Western Kentucky. Mr. Schmidt said this technology is normally used to drill to depths of 5,000–6,000 feet. He said for coal bed methane recovery, the depth to be drilled is only 500–600 feet and the pilot project will demonstrate if directional technology will work. This project is being hosted by a major coal company on one of its undeveloped properties. He said MuSU researchers will test the water involved in drilling to make sure it can be disposed in an environmentally–correct way. Also, the Kentucky Geological Survey at the University of Kentucky will be testing the methane to determine the chemical make–up and how to best utilize the methane. Mr. Schmidt said there are three potential uses for the recovered methane: sell into the natural gas pipeline system as natural gas; process on site to produce electricity for sale or to use locally; or use as a chemical feedstock in the manufacture of plastics. He said the latter two options would add value and create jobs.

Mr. Schmidt said this program was started at MuSU because the university offered to host a project there, but they eventually plan to talk to interested parties in Eastern Kentucky because there appears to be a sizeable coal bed methane resource to tap. He said if they are successful in these pilot efforts, a new methane–recovery industry could be established.

Chairman Haydon said with the current energy crisis, this initiative could not come at a better time. He also said the state needs to pay particular attention to creating jobs in the coal areas of the state.

In response to a question from Chairman Haydon, Mr. Schmidt said when drilling for methane, a vertical hole is drilled in the ground and a tool is inserted at the proper

depth. The drill bit can then change directions and extend as much as a mile away from the drilling site. He said this is advantageous because there is less surface disturbance, and an enormous resource can be tapped just from one site. The conventional method of drilling vertical wells requires a very large number of wells, and would have a considerable environmental impact on the area.

Chairman Haydon said reports of allocations over \$400,000 from the New Economy Pools are to be reported to the committee, and no further action is required.

Representative Wayne noted that based on the budget passed by the House, the Emergency Repair, Maintenance, and Replacement Account would have approximately \$4.3 million left for the remainder of the biennium. He asked Mr. Hintze and Commissioner Russ if they thought that was an adequate amount of money. Mr. Hintze said the House budget reduced the Emergency Account by \$5 million, and this was problematic since they already are aware of emergency needs that cannot be postponed indefinitely, and will cost more if they are postponed. He said the purpose of the Emergency Account is to fund unforeseen problems, and while he was not aware of any major projects resulting from the recent ice storm and flooding, the state must have a source of funds to respond to catastrophic failures and weather events. He said there is no way to determine the level of funding necessary to meet those kinds of needs.

Commissioner Russ said for the past six months the Finance Cabinet has been working on three projects that will eventually need allocations from the Emergency Account. Those projects include roof repair projects in Franklin County at the Health Services Building (\$1.2 million) and at the Library and Archives Building (\$800,000) and a brick veneer surface replacement at the Council of State Governments addition in Lexington (\$1–\$2 million). In addition, Western Kentucky University has requested emergency funds for various projects, including an HVAC system repair.

Representative Wayne asked what will happen if the Emergency Account is exhausted before the end of the biennium. Mr. Hintze said it is not clear on how they would proceed because there is no statutory procedure in place if the Emergency Account is exhausted. He said this has never happened since the account was established in 1980.

In response to another question from Representative Wayne, Mr. Hintze said it would be reasonable to seek language in the Senate version of the budget to allow the Rainy Day Fund to be tapped up to a certain amount for emergency projects in the event that the Emergency Account is exhausted.

Representative Wayne asked Senator Leeper if he would work with Mr. Hintze regarding language for the budget since it is now pending in the Senate, and Senator Leeper said he would.

Jack Morris, Director, Division of Real Properties, presented a lease modification of \$3,020 for the Cabinet for Families and Children (CFC) in Montgomery County (PR-2829). Mr. Morris said CFC has constructed an enclosed reception area in order to provide better security. This improvement was made prior to the Governor's recent executive order limiting lease modifications. Mr. Morris then reported modifications to increase the amount of leased space for the period of October through December 2002.

Chairman Haydon said since these modifications are under \$50,000, no further action was required for these leases.

Chairman Haydon said the next agenda item was the bond activity report from the Office of Financial Management. He asked Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), to report new items proposed for KIA assistance. Ms. Williams reported three new KIA projects: a Fund A1 loan increase in the amount of \$312,715 for the City of Marion in Crittenden County for design of sewer system improvements; a Fund A loan in the amount of \$1,405,200 for the Paducah McCracken Joint Sewer Agency in McCracken County for the construction of a new lift station; and a Fund C loan in the amount of \$1,000,000 for the Southern Water and Sewer District in Floyd County to construct water mains, pump stations, and water storage tanks.

Representative Wayne asked why the original amount of the Fund A1 loan for the City of Marion was not sufficient to cover the design. Ms. Williams said the original loan was for planning only, and the additional money will be used for design.

Senator Leeper made a motion to approve the three KIA projects. The motion was seconded by Representative Wayne and passed by voice vote.

Also included in members' folders was a report of six new 2020 Account/Fund B Grants: Glasgow Water and Sewer Commission-Barren County waterline extensions, storage tank, and interconnections (three projects); Grayson Utility Commission-Grayson County storage tank; East Clark Water District-Clark County waterline extension; and Kirksville Water Association-Madison County waterline extension. The committee conditionally approved the project allocations in January 2002, and no further action is required.

Chairman Haydon called on Tom Howard, Deputy Executive Director, Office of Financial Management, to discuss the agency's bond issue report. Mr. Howard introduced Mr. George Burgess, the new Executive Director of the Office of Financial Management. He then presented two new bond issue reports for the University of Louisville: Housing System Refunding Revenue Bonds, Series E, dated February 1, 2003, in the amount of \$6,785,000, and Consolidated Educational Buildings Refunding Revenue Bonds, Series M, dated February 1, 2003, in the amount of \$86,110,000. The proceeds will be used to refund outstanding bonds.

Representative Wayne made a motion to approve the new bond issues. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Howard reported 17 refunding bond issues with School Facilities Construction Commission (SFCC) debt service participation: Adair County, Jackson County, Bellevue Ind. (Campbell Co.), Menifee County, Calloway County, Newport Ind. (Campbell Co.), Carlisle County, Oldham County, Elizabethtown Ind. (Hardin Co.), Owensboro Ind. (Daviess Co.), Fleming County, Perry County (2), Green County, Pike County, Hickman County, and Science Hill Ind. (Pulaski Co.).

Representative Wayne made a motion to approve the school bond issues. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon said there were seven locally-funded school bond issues submitted to the committee for review this month: Bellevue Ind., Campbell County, Hopkins County, Kenton County, Knott County (2), and Madison County. He said all disclosure information has been filed, and no further action on the bond issues is required.

Chairman Haydon said the committee will hold its next meeting on March 25.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The meeting adjourned at 12:50 p.m.